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Cost Accounting Information and Price Determination in Nigeria Manufacturing Companies: Evidence from Nigeria Bottling Company Plc, Enugu

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ABSTRACT

This study set out to ascertain the nexus between Cost Accounting Information and Price Determination in Nigeria manufacturing companies. Specifically; it establishes the relationship between Information of Unit Cost, Information of Overhead cost, Information of Production cost and selling price of products in Nigeria Bottling Company Plc, Enugu. A survey research design approach was adopted and data collected using five point likert-scale questionnaire which was administered on sample of 293 out of 1100 staff and management of Nigeria Bottling Company Plc, 9th Mile Corner, Enugu. Three hypotheses were formulated and were tested using Karl Pearson's product moment correlation coefficient. Findings unveil that there is significant relationship between Information of Unit Cost and Price determination in Nigeria manufacturing companies. The findings further revealed that there exists a significant relationship between Information of Overhead cost and Price determination in Nigeria manufacturing companies. Finally, the result established also that there significant relationship between Information of Production cost and Price determination in Nigeria Manufacturing companies. Consequent upon the findings, this study recommends among others; that Managers should consider improving their overhead costs apportionment system from the traditional method to the ABC method in order to have accurate calculation of the total costs per unit of their products. Again, that the management of Nigeria Manufacturing companies should pay more attention on reducing cost of productions without having any negative impact on product quality.

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1.1 Introduction

Manufacturing Company is a company which involves in a large-scale production of goods, transforms raw materials, parts, and components into finished merchandise using manual labour and/or machines. These goods are sold directly to consumers, to other manufacturers for the production of more complex products, or to wholesalers who distribute the goods to retailers. By this definition, it can be viewed that high operating cost with the attendant reduction in profitability will definitely be a matter of concern to Manufacturing companies especially in developing countries like Nigeria. Worsen by the down-turn on energy sector, The power generating capacity of the energy sector has diminished with an adverse effect on manufacturing companies. Akintoye, Onakoya, Amos, and Ifayemi (2015) posited that poor infrastructure gave rise to higher costs and compromise the quality of the product, which accounts for the significant competitive disadvantage of most manufacturing companies. Adeleke (2014) opined that quite a good number of manufacturing companies in Nigeria have ceased to operate, and more prominent companies have acquired many or at best, merged with other more prominent manufacturing companies. Some have relocated their operational base to neighboring countries (Abdul & Isiaka, 2015). The managements of the manufacturing companies that are still operating within the Nigeria market are obviously in tussle with challenges of cost control and price determination over their products.

One of the most crucial operating decisions management must make is setting a price for its products which has direct bearing to achieving the overall objective of an organization. It is unthinkable that many firms are still mismanaging pricing thus, causing lots of money and anticipated profits to be unexplored and wasted. Some firms' managements with poor managerial skill thought that pricing is merely assigning cost to elements of business; they do not understand that pricing is a technical role which cannot be perform without systematic consideration of some certain factors mainly cost-related factors. A company's survival and profitability depends upon its pricing decisions thus price is the only element in the marketing mix that produces revenue and thus ensures profitability (Kotler and Keller, 2006).By this, Price adopted by firms must be able to cover all cost in the long run as well as to leave profit margin to reward management.

The price of a product has a direct relationship with many operations of the firm's activities. A price decision will affect demand and this in turn affects the revenue generated by the firm. Similarly, a firm which makes profit has the propensity of attracting more new capital. This shows that the stakeholders have confidence in the ability of the firm to yield

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return to them. So, the performance of management is usually measured by the amount of revenue and profit it generates to satisfy the shareholders of the organization.

Empirically, it's evident from the reviewed literature that there is paucity of literature and empirical evidence on the nexus between cost accounting information and price determination in Nigeria Manufacturing companies. Researchers' interests (Anand, Sahay, & Subhashish, 2004; Sulanjaku & Shingjergji (2015; Saaydah & Khatatneh ,2014) were laudable on examining the impact of Cost management practices/ accounting in Manufacturing companies without link on how it influence price and with none carried out in Nigeria. Again, some (Kabiru, 2014; Mutia & Ahmad, 2016) have chosen to limit their study on the effect of just one of measure of cost accounting information on price. Consequent upon these identified gaps, this study is driven to empirically examine the relationship between cost accounting information and price determination in Nigerian Manufacturing companies with Nigeria Bottling Company Plc, Enugu as the study tag.

1.2 Objectives of the Study

The broad objective is to examine the relationship between Cost Accounting Information and Price Determination.

The specific objectives are:

a. To ascertain if there is significant relationship between Information of Unit Cost and Price determination in Nigeria Bottling Company Plc,.

b. To determine whether there is significant relationship between Information of Overhead cost and Price determination in Nigeria Bottling Company Plc.

c. To evaluate the relationship between Information of Production cost and Price determination in Nigeria Bottling Company Plc.

1.3 Research Questions

The following research questions will be addressed in this Study;

a. To what extent does Information of Unit Cost correlate with Price determination in Nigeria Bottling Company Plc?

b. What is the relationship between Information of Overhead cost and Price determination in Nigeria Bottling Company Plc?

c. How has Information of Production cost relate to Price determination in Nigeria Bottling Company Plc?

1.4 Research Hypotheses

Based on the specific objectives, the following hypotheses were formulated:

H_0: There is no significant relationship between Information of Unit Cost and Price determination in
Nigeria Bottling Company Plc.

H_0: There is no significant relationship between Information of Overhead cost and Price determination in Nigeria Bottling Company Plc.

H_0: There is no significant relationship between Information of Production cost and Price determination in Nigeria Bottling Company Plc.

2.0 Literature Review

2.1 Conceptual Framework

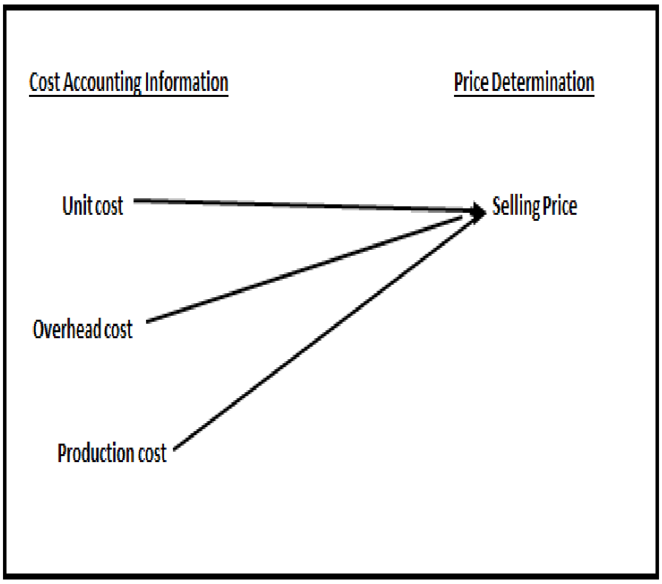

Fig 2.1.1. Proposed Conceptual Framework.

Source: Researchers Desk (2021)

2.2 Theoretical Review

There are numerous theories in cost accounting and pricing policies which those ones that have direct bearing to this study are Signaling theory, Contingency theory, Clark theory of profitability and Profit Maximization Theory. In all, this is anchored on Profit Maximization Theory.

Profit Maximization Theory was championed by Baumol (1962).In traditional economic model of the firm it is assumed that a firm's objective is to maximize short-run profits, that is, profits in the current period which is generally taken to be a year. In various forms of market structure such as perfect competition, monopoly, monopolistic competition the traditional microeconomic theory explains the determination of price and output by assuming that firm's aim is to maximize current or short-run profits. This current short-run profit maximization model of the firm has provided decision makers with useful framework with regard to efficient management and allocation of resources. Profit is a difference between the total revenue and total cost.

This study has been anchored on Profit Maximization Theory with a view to captured both variables of the independent and dependent concepts in the topic of this study since as deduced from this theory; profit cannot be derived if total revenue (Price) and total costs (unit cost, overheard cost and production cost) were not considered. Again, profit occurs as the positive difference between total revenue(TR) and total Cost(TC),this implies that an ideal price for a product should be such which after deduction of the unit cost(unit variable and fixed cost) will leave a profit (i.e Cost-Plus pricing).

2.3 Empirical Review

An Indonesia study by Maya and Muryati (2017) analyzed the effect of production cost with order price method on sales pricing of products at PT. Aneka printing Indonesia in Sukoharjo. The study used primary detains the form of information obtained from the owner of the company or parties concerned. Data collection methods used are literature research methods, interviews and Method of documentation. While the method of data analysis used is by using simple regression analysis, by aid of tool program SPSS

16.0 for windows. The study found that the cost of production has a very strong influence on the sale price.

Novák, Dvorský, Popesko and Strouhal (2017) analyzed the effect of overhead cost behavior on decision-making approach. The study used multiple linear regression models with a point estimate and with interval estimate of the model parameters. The study showed that asymmetric cost behavior is affected by asymmetric behavior of the chosen factors.

In another way, Mutia and Ahmad (2016) determined how much influence the cost of production has on net income from 2010-2014 of PT, Indorama Synthetics TBK. The study used descriptive method with quantitative approach. Data were tested using SPSS 21.0; the data analysis used was simple regression analysis, and correlation analysis. The result of the study showed that partially production cost have a significant effect to net profit.

Again, Adesina, Ikhu–Omoregbe and Aboaba (2015) examined the relationship between accounting information and profit planning. Descriptive and inferential statistics were carried out on the opinion of 222 top management staff purposively selected from the listed manufacturing companies in Nigeria with the aid of statistical package for social sciences (SPSS version 20). The results of the data analysis carried out in the study revealed that a positive significant relationship exists between accounting information and profitability of manufacturing organizations.

A related research report carried out in Yemen by Alahdal, Alsamhi and Prusty (2016) examined the role of cost accounting systems in the process of pricing decision-making in Yemeni industrial companies of Taiz City. The study used both descriptive and analytical methods which suit the nature of the present study which is mostly based on field work and the theoretical underpinnings. With aid of the Statistical Package for Social Sciences (SPSS), the study indicated that the cost of the accounting system applied in industrial companies provides quality accounting information.

Another report from Nigeria by Babatolu, Aigienohuwa and Adewumi (2015) examined the relationship between Costing Techniques and Pricing Decisions of Manufacturing Companies in Ogun State. A structured questionnaire was used to elicit information on relevant variables from respondents. The data analysis techniques used for the study were Kolmogorov Simonov test and kruskal-Wallis test through the aid of Statistical Package for social sciences (SPSS 21.0).The findings of the study revealed that there was significant difference in the use of Target costing technique for pricing decision($p<0.05$) and there was no significant difference in the use of Activity based costing technique for pricing decision.($p>0.05$).

Kabiru (2014) examined the impact of overhead cost apportionment on selling price determination in the Malaysian automobile manufacturing industry. The methodology used was interview with staff of one automobile manufacturing company in Malaysia taken as a case study: Naza Automotive Manufacturing Sdn. Bhd. The study found that overhead costs apportionment has significant impact on the determination of "true and fair" selling price of an automobile manufacturing firm,

A research report by Anand, Sahay, and Subhashish (2004) empirically examined the implication of cost management practices in Indian corporations. The study adopted survey research design.From the analysis of the hypotheses, the study established that the firms are successful in capturing accurate cost and profit information from their ABC cost systems for value chain and supply chain analysis.

Sulanjaku and Shingjergji (2015) conducted a study on Strategic Cost Management Accounting Instruments And Their Usage In Albanian Companies. The methodology used was mainly descriptive study. The study found the most used Strategic Cost Management (SCM) instruments were: benchmarking strategic pricing, customer accounting, and target costing in their order of intensity. These instruments were the most used instrument by the Albanian manufacturing companies and the reason behind this selection of instruments were primarily related to implementation costs and the usage of the non-financial information, rather than the cost drivers, that can be a very important factor in determining the product price

The study carried out by Saaydah and Khatatneh (2005) on the adoption of some recent cost management tools and their perceived effects on the performance of Jordan manufacturing companies shows that few modern techniques have been adopted so far. The authors used 30 companies which represent 25% of the targeted population and confirm a reasonable level of awareness and adoption of Just-in-Time Manufacturing, Balanced Score Card, and JIT inventory, Activity Based Costing, Target Costing and Kaizen Costing in their order of intensity. Their findings also reveal that the tool that faces the greatest difficulty in terms of adoption is Target Costing followed by Activity Based Costing.

Empirically, it's evident from the reviewed literature that there is paucity of literature and empirical evidence on the nexus between cost accounting information and price determination in Nigeria Manufacturing companies. Researchers' interests (Anand, Sahay, & Subhashish, 2004; Sulaiman et. al., 2015; Saaydah & Khatatneh ,2005) were laudable on examining the impact of Cost management practices/ accounting in Manufacturing companies without link on how it influence price and with none carried out in Nigeria. Again, some (Kabiru, 2014; Mutia & Ahmad, 2016) have chosen to limit their study on the effect of just one of measure of cost accounting information on price. Consequent upon these identified gaps, this study is driven to empirically examine the relationship between cost accounting information and price determination in Nigerian Manufacturing companies with Nigeria Bottling Company Plc, Enugu as the study tag.

3.0 Methodology

Both Survey and descriptive approaches were employed in this study. The population of this study constitutes of all staff and management of the Nigeria Bottling Company Plc, 9th Mile, Corner, Ngwo, Enugu. The staff strength of the branch is made up of total population size of one thousand, one hundred (1100) employees. The sample size of two hundred and ninety-three (293) staff/respondents was drawn using Taro Yamane sampling method but by aid of simple stratified sampling technique, the following stratum were obtained from the core-study departments: twenty-five (25) from Administration, thirty-three (33) from Quality Control, fifty-three (53) from Store, one hundred and twelve (112) from finance and seventy (70) from Production department. Primary data were sourced through structured questionnaire which was used to obtain information from respondents from the core departments. The primary data were sourced using a-5 Likert scale response. Strongly agree (SA), Agree (A), Undecided (U) strongly disagree (SD), and Disagree (D). Out of two hundred and ninety-three (293) copies of questionnaire administered, two hundred and ninety (290) copies of questionnaire were returned represented 99% of the administered copies. The validity of the questionnaire was confirmed by the Experts. Pilot survey was adopted for the reliability test and it yielded correlation coefficient of 0.88 which means that the questionnaire designed for the research work is a good instrument for this study. It was structured in line with the research questions and hypotheses of the study. Pearson Product Moment Correlation Coefficient was used for data analysis

$$r = \frac{n\Sigma xy - (\Sigma x)(\Sigma y)}{\sqrt{n[\Sigma x^2 - (\Sigma x)^2][n\Sigma y^2 - (\Sigma y)^2]}}$$

4.0 Data Presentation, Analysis and Interpretation

4.1 Test of Statistical Hypotheses

Hypothesis 1

H_{01}: There is no significant relationship between Information of Unit Cost and Price determination in Nigeria Bottling Company Plc.

$$r = \frac{n\Sigma xy - (\Sigma x)(\Sigma y)}{\sqrt{n(\Sigma x^2) - (\Sigma x)^2][n\Sigma y^2 - (\Sigma y)^2)}}$$

Where: n=5, $\sum X=15$, $\sum Y=1450$, $\sum XY=5532$, $\sum x^2=55$, $\sum y^2=611372$

$$r = \frac{5(5532) - (15)(1450)}{\sqrt{5[55 - (15)^2][5(611372) - (1450)^2)}}$$

$$r = \frac{27660 - 21750}{\sqrt{275 - 225][3,056860 - 2102500)}}$$

$$r = \frac{5910}{\sqrt{50 \times 954360}}$$

$$r = \frac{5910}{6908} = 0.86\ (86\%)$$

Decision: The r calculated of 0.82 is greater than 0.05 level of significance. The alternate hypothesis is accepted. There is significant relationship between Information of Unit Cost and Price determination in Nigeria Bottling Company Plc.

Table 1. Distribution of respondents, on the extent to which Information of Unit Cost correlate with Price determination in Nigeria Bottling Company Plc.

S/N	Variables Responses (In %)	SA	A	U	D	SD
1	Knowing the Unit cost of brewer’s product is pre-requite to determining Market price	118 41%	97 33%	32 11%	27 9%	16 6%
2	The Unit cost of brewer’s product is an aggregate of variable cost per unit and fixed cost per unit associated with the production of good.	118 41%	75 26%	11 4%	54 18%	32 11%
3	Knowing the Unit cost as a crucial cost measure in the operational analysis of a company is a determinant of selling price per product produced.	140 48%	54 19%	11 4%	48 17%	37 12%
4	Identifying and analyzing a company's unit costs is a quick way to check if a company is producing a product efficiently.	118 41%	107 37%	21 7%	11 4%	33 11%
5	With your response on 1-3 above, it’s therefore unarguable that when there is no unit cost, the selling price of Brewer’s product cannot be ascertained.	102 35%	113 39%	27 9%	16 6%	32 11%
	Pooled/merged data	596 41%	446 31%	102 7%	156 11%	150 10%

Source: Field Survey 2021

Table 2. Calculation of correlation.

Options	Point(x)	Response(y)	XY	X^2	Y^2
SA	5	596	2980	25	355216
A	4	446	1784	16	198916
U	3	102	306	9	10404
SD	2	156	312	4	24336
D	1	150	150	1	22500
∑	15	1450	5532	55	611372

Source: Author’s computation, 2021

Table 3. Distribution of respondents on the relationship between Information of Overhead cost and Price determination in Nigeria Bottling Company Plc.

S/N	Variables Responses (In %)	SA	A	U	D	SD
1	Overhead Costs aggregate all indirect costs related to consumptions, wages and other factory overheads incurred during the production process	107 37%	129 45%	11 4%	27 9%	16 5%
2	Price determination is reasonably influenced by such Costs as water and electricity bills, safety and environmental costs, and insurance for the machinery and other non-current assets used in production Nigeria Bottling Company Plc..	118 41%	75 26%	11 4%	54 18%	32 11%
3	Price determination is reasonably influenced by such costs as handling and setting of manufacturing equipment, inspection of the products, maintenance of the machine, factory cleanliness, record keeping as well as monitoring and maintenance of the production line in Nigeria Bottling Company Plc..	150 52%	75 26%	6 2%	21 7%	38 13%
4	Traditional method of overhead costs apportionment system remained unchanged in determining total unit cost per product as it can influencing the pricing decision on a product in Nigeria Bottling Company Plc..	113 39%	81 28%	54 19%	16 6%	26 8%
5	In Nigeria Bottling Company Plc, the indirect costs incurred by service depts. are fairly apportioned to production centre and ultimately to each unit produced	140 48%	54 19%	54 19%	16 6%	26 8%
	Pooled/merged data	628 43%	414 29%	136 9%	134 9%	138 10%

Source: Field Survey 2021

Table 4. Calculation of correlation.

Options	Point(x)	Response(y)	XY	X^2	Y^2
SA	5	628	3140	25	394384
A	4	414	1656	16	171396
U	3	136	408	9	18496
SD	2	134	268	4	17956
D	1	138	138	1	19044
∑	15	1450	5610	55	621276

Table 5. Distribution of respondents, on whether there is significant relationship between Information of Production cost and Price determination in Nigeria Bottling Company Plc.

S/N	Variables Responses (In %)	SA	A	U	D	SD
1	In pricing decision, determination of cost incurred in production is an indispensible factor to consider.	172 59%	64 22%	21 7%	11 4%	22 8%
2	For effective pricing, the total cost of production must be fully ascertained	166 57%	75 26%	11 4%	5 2%	33 11%
3	Pricing decision becomes sound as the fixed cost as well as the variable cost must be determined and all the various costs that may be incurred in the marketing process (like advertising expense, transportation, etc.) must have been calculated.	118 41%	78 27%	10 3%	54 19%	30 10%
4	When cost is not fully ascertained, the determination of selling price becomes faulty in Nigeria Bottling Company Plc.	161 56%	75 26%	11 4%	27 9%	16 5%
5	In its linkage effect, when full cost is not ascertained and considered, price will be wrong and will affect the income of this company.	134 46%	81 28%	16 6%	32 11%	27 9%
	Pooled/merged data	751 52%	373 26%	69 5%	129 9%	128 8%

Source: Field Survey 2021

Table 6. Calculation of correlation.

Options	Point(x)	Response(y)	XY	X^2	Y^2
SA	5	751	3755	25	564001
A	4	373	1492	16	139129
U	3	69	207	9	4761
SD	2	129	258	4	16641
D	1	128	128	1	16384
∑	15	1450	5840	55	740916

Source: Author's computation, 2020

Hypothesis 2

H_{02}: There is no significant relationship between Information of Overhead cost and Price determination in Nigeria Bottling Company Plc.

$$r = \frac{n\Sigma xy - (\Sigma x)(\Sigma y)}{\sqrt{n(\Sigma x^2) - (\Sigma x)^2][n\Sigma y^2 - (\Sigma y)^2)}}$$

Where: n=5, ∑X=15, ∑Y=1450, ∑XY=5610, $\sum x^2$=55, $\sum y^2$=621276

$$r = \frac{5(5610) - (15)(1450)}{\sqrt{5[55 - (15)^2][5(621276) - (1450)^2)}}$$

$$r = \frac{28050 - 21750}{\sqrt{275 - 225][3106380 - 2102500)}}$$

$$r = \frac{6300}{\sqrt{50 \times 1003880}}$$

$$r = \frac{6300}{7085} = 0.89\ (89\%)$$

Decision: The r calculated of 0.89 is greater than 0.05 level of significance. The alternate hypothesis is accepted. There is significant positive relationship between Information of Overhead cost and Price determination in Nigeria Bottling Company Plc.

Hypothesis 3

H_{03}: There is no significant positive relationship between Information of Production cost and Price determination in Nigeria Bottling Company Plc.

$$r = \frac{n\Sigma xy - (\Sigma x)(\Sigma y)}{\sqrt{n(\Sigma x^2) - (\Sigma x)^2][n\Sigma y^2 - (\Sigma y)^2)}}$$

Where: n=5, ∑X=15, ∑Y=1450, ∑XY=5840, $\sum x^2$=55, $\sum y^2$=740916

$$r = \frac{5(5840) - (15)(1450)}{\sqrt{5[55 - (15)^2][5(740916) - (1450)^2)}}$$

$$r = \frac{29200 - 21750}{\sqrt{275 - 225][3704580 - 2102500)}}$$

$$r = \frac{7450}{\sqrt{50 \times 1602080}}$$

$$r = \frac{7450}{8950} = 0.83\ (83\%)$$

Decision: The r calculated of 0.83 is greater than 0.05 level of significance. The alternate hypothesis is accepted.

There is significant relationship between Information of Production cost and Price determination in Nigeria Bottling Company Plc.

4.2 Discussion of findings

The result of hypothesis one revealed that there is significant positive relationship between Information of Unit Cost and Price determination in Nigeria Bottling Company Plc.This implies that a 1% increase in Unit cost tends to increase the selling price of product in brewers and vice versa. With this, it’s not in doubt that ascertaining Unit cost is the prerequisite to pricing and such as a factor indispensably, must be considered before price is assigned to goods. This finding has been affirmed by the aggregate response rate of 72%.

Again, the result of hypothesis two reveals a significant positive relationship between Information of Overhead cost and Price determination in Nigeria Bottling Company Plc. This implies that a 1% increase in Overhead cost tends to increase the selling price of product in brewery companies and vice versa. The finding affirms that information of Overhead cost is another major determinant to pricing decision. This finding was supported by the aggregate response rate of 72%.The research finding agreed with the report of Kabiru (2014) who found that Overhead cost has significant effect of selling price of an automobile manufacturing firm in Malaysia.

Finally, the outcome of hypothesis three presented significant positive relationship between Information of Production cost and Price determination in Nigeria Bottling Company Plc. This implies that a 1% increase in Production cost tends to increase the selling price of product in brewery companies and vice versa. This proves that cost accounting information of production cost influences the selling price of products in manufacturing companies in Nigeria. This finding was affirmed by the aggregate response rate of 78%.The research finding was also in consonance with the finding of Mutia and Ahmad (2016).

5.0 Findings, Conclusion and Recommendations

5.1 Findings

The following findings were made concerning the relationship between Cost Accounting Information and Price Determination:

a) There is significant relationship between Information of Unit Cost and Price determination in Nigeria Bottling Company Plc
b) There is significant relationship between Information of Overhead cost and Price determination in Nigeria Bottling Company Plc.
c) There is significant relationship between Information of Production cost and Price determination in Nigeria Bottling Company Plc.

5.2 Conclusion

This study was conducted to examine the relationship between Cost Accounting Information and Price Determination. By this, the study established the interplay between cost accounting information surrogated by accounting information of Unit Cost, Overhead cost & Production cost and the price determination viewed as the assigned selling price of product.

The result of hypothesis one revealed that there is significant positive relationship between Information of Unit Cost and Price determination in Nigeria Bottling Company Plc.This implies that a 1% increase in Unit cost tends to increase the selling price of product in brewers and vice versa. With this, it’s not in doubt that ascertaining Unit cost is the prerequisite to pricing and such as a factor indispensably, must be considered before price is assigned to goods. This finding has been affirmed by the aggregate response rate of 72%.

Again, the result of hypothesis two reveals a significant positive relationship between Information of Overhead cost and Price determination in Nigeria Bottling Company Plc. This implies that a 1% increase in Overhead cost tends to increase the selling price of product in brewery companies and vice versa. The finding affirms that information of Overhead cost is another major determinant to pricing decision. This finding was supported by the aggregate

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In conclusion, it can be deduced that Cost Accounting Information influences positively Price Determination in Nigeria manufacturing companies.

5.3 Recommendations

Based on the findings from this study, the researcher recommends that:

a. The hidden costs management approach should be included in the short term administration of the company in order to quickly determine the seize significant effects in respect of unit cost.

b. Management should consider improving their overhead costs apportionment system from the traditional method to the ABC method in order to have accurate calculation of the total costs per unit of their products.

c. Managers should pay more attention on reducing cost of productions without having any negative impact on quality

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